

REVISED LEGISLATIVE DIGEST

(Substituted, 6/24/2025)

[Business and Tax Regulations Code - Tax Rate Changes for Telecommunications Business Activities]

Ordinance amending the Business and Tax Regulations Code to reduce the tax rates on gross receipts from telecommunications business activities by moving those activities from Category 5 to Category 4, beginning January 1, 2026, for purposes of the gross receipts tax and the homelessness gross receipts tax; and to retain taxpayers' eligibility to take the tax credit for opening a physical location in designated areas of the City, as applied to gross receipts from telecommunications business activities.

Existing Law

The City imposes a gross receipts tax (GRT) that generally applies to a business's gross receipts attributable to the City (i.e., its taxable gross receipts), to fund general municipal purposes. The business activity generating the gross receipts determines the formula used to attribute gross receipts to the City and the applicable tax rates. For tax years 2025 and 2026, the GRT rates for Category 4 business activities (which include utilities, manufacturing, transportation and warehousing, among other activities) progressively range from 0.25% to 1.512% of taxable gross receipts. For tax year 2027, those rates range from 0.26% to 1.602%, and for tax year 2028 and subsequent years, the rates range from 0.268% to 1.672%. For tax years 2025 and 2026, the GRT rates for Category 5 business activities (which include information and telecommunications as a subcategory of information, among other activities) progressively range from 1% to 1.68% of taxable gross receipts. For tax year 2027, those rates range from 1.04% to 1.78%, and for tax year 2028 and subsequent years, the rates range from 1.071% to 1.858%. Both Category 4 and Category 5 business activities are attributed to the City using the same formula.

The City imposes a homelessness gross receipts tax (HGRT) that also generally applies to a business's taxable gross receipts, to fund services for homeless people and to prevent homelessness. The HGRT incorporates by reference the GRT business activity categories and the corresponding formulas for determining taxable gross receipts. Beginning in tax year 2025, the HGRT rates for Category 4 business activities progressively range from 0% to 0.738% of taxable gross receipts. For Category 5 business activities, the HGRT rates range from 0% to 0.82% of taxable gross receipts.

Taxpayers who opened a physical location in the City in certain designated areas on or after January 1, 2023, may take a gross receipts tax credit for gross receipts from Category 5 (which currently includes telecommunications), Category 6, and other enumerated business activities.

Amendments to Current Law

Beginning January 1, 2026, this ordinance would move telecommunications from Category 5 to Category 4 for purposes of the GRT and HGRT, resulting in a rate reduction for taxable gross receipts from telecommunications business activities. This ordinance would retain the eligibility of taxpayers to take the new physical location tax credit for gross receipts from telecommunications business activities.

Background Information

On June 3, 2025, proposed legislation was introduced to move telecommunications business activities from Category 5 to Category 4. This proposed legislation is being introduced as a substitute ordinance to retain the eligibility of taxpayers to take the new physical location tax credit for gross receipts from telecommunications business activities.

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